WAWATAM TOWNSHIP EMMET COUNTY, MICHIGAN

Financial Statements For the Year Ended March 31, 2006

Prepared By:

Richard E. Mahlmeister, C.P.A., P.C. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701

Loca	l Unit	of Go	vernment Type				Local Unit Na	me		County
	Count	ty	□City	⊠Twp	∐Village	□Other	Wawatam	Township		Emmet
Fisc	ai Yea	r End			Opinion Date			Date Audit Report Su		
Ma	arch	31,	2006		August 2,	2006		August 9, 200	6	
Ve a	affirm	that	:							
			•		licensed to p		_			
					erial, "no" resp ments and rec			osed in the financial s	tatements, inclu	uding the notes, or in the
	YES	9	Check ea	ch applic	able box bel	ow. (See in	structions fo	r further detail.)		
1.	×				ent units/fund s to the finan				ne financial state	ements and/or disclosed in the
2.	X							unit's unreserved fund budget for expenditu		estricted net assets
3.	×		The local of	unit is in c	ompliance wi	th the Unifo	orm Chart of	Accounts issued by the	ne Department o	of Treasury.
4.	×		The local u	unit has a	dopted a bud	get for all re	equired funds	3.		
5.	×		A public he	earing on	the budget w	as held in a	accordance v	vith State statute.		
6.	×				ot violated the ssued by the				er the Emergen	cy Municipal Loan Act, or
7.	×		The local i	unit has n	ot been delin	quent in dis	tributing tax	revenues that were co	ollected for ano	ther taxing unit.
8.	×		The local i	unit only h	olds deposits	s/investmen	its that comp	ly with statutory requi	rements.	
9.	X		The local of L	unit has n .ocal Unit	as no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).					
10.	X		that have i	not been i	previously co	mmunicated	d to the Loca	ement, which came to I Audit and Finance D t under separate cove	Division (LAFD).	during the course of our audit If there is such activity that h
1 1 .	X		The local of	unit is free	e of repeated	comments	from previou	s years.		
12.	X		The audit	opinion is	UNQUALIFI	ED.				
13.	×				omplied with g principles ((r GASB 34 a	s modified by MCGA	A Statement #7	and other generally
14.	X		The board	or counc	il approves al	ll invoices p	rior to payme	ent as required by cha	arter or statute.	
15.	X		To our kno	owledge, I	oank reconcil	iations that	were review	ed were performed tin	nely.	
incl des	uded cripti	in t	his or any) of the auth	other aud nority and	lit report, nor or commissic	do they o	btain a stan	d-alone audit, please	boundaries of enclose the n	the audited entity and is not ame(s), address(es), and a
								in all respects.		
We	have	e en	closed the	following	j:	Enclosed	Not Requir	ed (enter a brief justifica	ition)	
Fin	ancia	al Sta	tements			X			No. of State	
The	e lette	er of	Comments	and Reco	mmendations	s X				
Oth	er (D	escrib	e)							
			Accountant (Fir	· ·				Telephone Number		
			Mahlmeis	ter, CPA	, PC			231-436-5223	1 -: :	l
Stre	et Add	ress						City	State	Zip

Mackinaw City

Richard E. Mahlmeister, CPA

Printed Name

MI

License Number 17351

49701

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

	<u>PAGE</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-5
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements	
Balance Sheet-Governmental Funds	8 - 9
Statement of Revenues, Expenditures and Changes	
In Fund Balances-Governmental Funds	10 - 11
Statement of Fiduciary Net Assets	12
NOTES TO FINANCIAL STATEMENTS	13 – 20
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	21 - 22

Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

August 2, 2006

Township Board Wawatam Township Emmet County, Michigan

I have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of *Wawatam Township*, *Emmet County*, *Michigan*, as of and for the year ended March 31, 2006, which collectively comprise *Wawatam Township's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of *Wawatam Township's* management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of *Wawatam Township*, *Emmet County*, *Michigan*, as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 21 through 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Mulher opp

Richard E. Mahlmeister, C.P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

- Assets at March 31, 2006 totaled \$168,415 for governmental activities. Of the total, \$4,897 represent capital assets, net of depreciation.
- Revenues derived from governmental activities were \$157,667; all from general revenues. Overall expenses for the Township's governmental activities were \$91,684.
- The Township has no outstanding debt nor were any capital assets purchased during the fiscal year. Capital asset and debt activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

- This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.
- The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year March 31, 2006.
- The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.
- The notes to the financial statements explain some of the information in the statements and provide more detailed data.
- Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities are reported as governmental activities. These would include the operations recorded in the General Fund and the Liquor Law Enforcement Fund.

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position:

	March 31, 2006	March 31, 2005
Current and other assets	\$163,518	\$95,950
Capital assets (net)	4,897	6,482
Total assets	\$168,415	\$102,432
Net assets:		
Invested in capital assets	\$4,897	\$6,482
Unrestricted	163,518	95,950
Total Net Assets	\$168,415	\$102,432

(Continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

	March 31, 2006	March 31, 2005
REVENUES:		
Program revenues:		
Charges for services	\$ -	\$250
General revenues:		
Property taxes	136,915	75,848
State-shared revenues	17,289	16,878
Interest income	2,341	1,056
Reimbursements and other	1,122	726
Total revenues	157,667	94,758
EXPENSES:		
Legislative	3,304	2,392
General government	54,975	70,331
Public safety	16,287	15,570
Public works	10,198	9,589
Recreation and culture	6,920	6,708
Total expenses	91,684	104,590
Change in net assets	65,983	(9,832)
Beginning net assets	102,432	112,264
Ending net assets	\$168,415	\$102,432

The Township is able to report positive balances in net assets. Net assets increased by \$65,983. Property taxes have increased, due mainly to an additional extra voted mill levied for four years and collected for the first time this year. Overall expenses have decreased by \$12,906, due mainly to a decrease in professional fees related to tax tribunal issues.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Township Board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FUND FINANCIAL STATEMENTS (CONTINUED)

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains two individual governmental funds; General Fund and Liquor Law Enforcement Fund; of which the General Fund is considered a major fund. The Township funds are financed primarily by both property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Activities

The General Fund remained consistent, except for approximately \$12,000 decrease in professional fees paid from the prior year. The Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, fire and police protection and tax collection. The General Fund increased its fund balance by \$67,562, bringing the fund balance to \$163,225.

Capital Asset and Debt Administration

At March 31, 2006, the Township had \$45,082 in capital assets, which includes the township hall and office equipment. No additional capital assets were purchased during the current year, nor was any debt incurred. The Township has no debt as of March 31, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS

Overall there are no significant differences between the original and actual budget. We did not make some improvements to the township hall and spent less on road improvements that we planned on doing.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township expects financial aspects of governing to be generally the same as in the current year. However, one area of continuing potential revenue reduction is in state-shared revenues. These monies come from the State of Michigan and are contingent on various economic and political consideration. We also plan on using the additional millage levied to continue improving various county roads within the Township, including completing the paving of Pointe Drive in the Spring for approximately \$65,000.

We believe that we need to continue to strive for a healthy fund balance.

CONTACTING TOWNSHIP MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact any township official at 231.436.5274 (Wawatam Township Hall).

Roger W. Moore

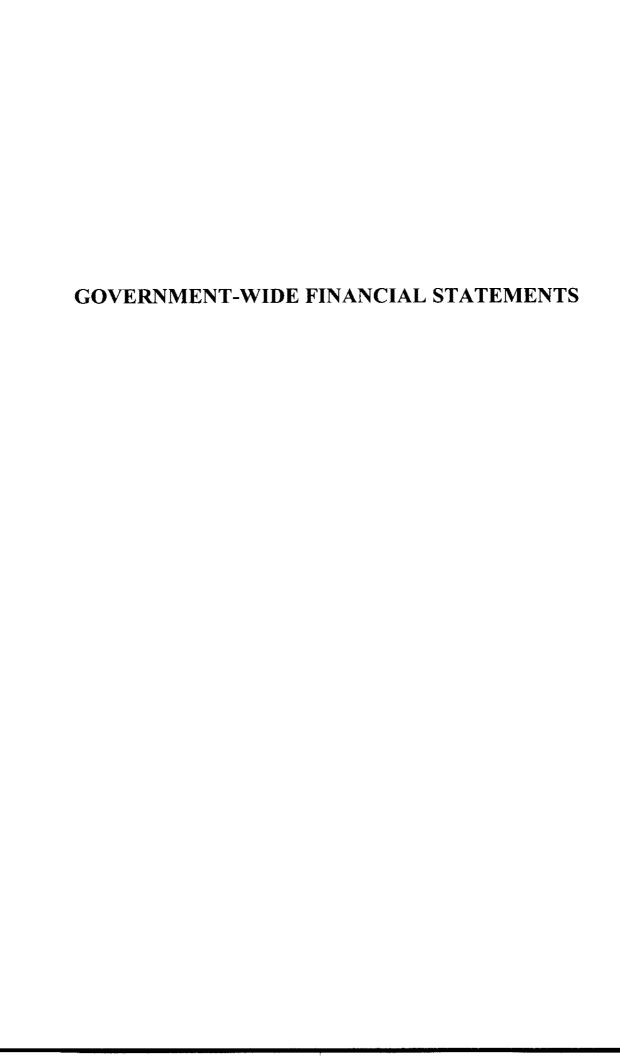
Wawatam Township Supervisor

XazaW. Moore

borence a. Dracy

Wawatam Township Clerk

BASIC FINANCIAL STATEMENTS



WAWATAM TOWNSHIP STATEMENT OF NET ASSETS MARCH 31, 2006

_	ASSETS	GOVERNMENTAL ACTIVITIES
_	Cash and cash equivalents Investments	\$120,407 29,437
_	Taxes receivable Capital assets Accumulated depreciation	13,674 45,082 (40,185)
_	TOTAL ASSETS	\$168,415
	NET ASSETS	
	Invested in capital assets Unrestricted	\$4,897 163,518
_	TOTAL NET ASS <u>ETS</u>	\$168,415

The accompanying notes are an integral part of these financial statements.

WAWATAM TOWNSHIP STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2006

			Program Revenues	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities				
Legislative	\$3,304	\$ -	\$ -	
General government	54,975	-	-	
Public safety	16,287	-	-	
Public works	10,198	_	-	
Recreation and culture	6,920			
Total governmental activities	91,684	.		

General Revenues
Property taxes
State-shared revenues
Unrestricted interest income
Other
Total general revenues
Change in net assets
Net assets, beginning of year
Net assets, end of year

Net (Expense) Revenue and Changes in Net Assets Governmental Activities Capital Grants and Contributions TOTAL \$ (\$3,304) (54,975)(16,287)(10,198)(6,920)(91,684) 136,915 17,289 2,341 1,122 157,667 65,983 102,432

\$168,415

FUND FINANCIAL STATEMENTS

WAWATAM TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

		NON-MAJOR	
	-	FUND	
	GENERAL	LIQUOR LAW ENFORCEMENT	TOTAL GOVERNMENTAL
ASSETS	FUND	FUND	FUNDS
Cash and cash equivalents	\$118,727	\$293	\$119,020
Investments	29,437	Ψ2/3	29,437
Taxes receivable	13,674	_	13,674
Due from tax collection fund	1,387		1,387
TOTAL ASSETS	\$163,225	\$293	\$163,518
FUND BALANCES			
Unreserved:			
Designated For:			
Subsequent years' expenditures	\$798	\$ -	\$798
Road improvements	72,545	-	72,545
Building improvements	10,094	-	10,094
Unreserved, undesignated	79,788	293	80,081
TOTAL FUND BALANCES	\$163,225	\$293	\$163,518

The accompanying notes are an integral part of these financial statements.

WAWATAM TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS

\$163,518

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add: capital assets

45,082

Subtract: accumulated depreciation

(40,185)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$168,415

The accompanying notes are an integral part of these financial statements.

WAWATAM TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND	NON-MAJOR FUND LIQUOR LAW ENFORCEMENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$136,915	\$ -	\$136,915
State shared revenues	16,712	577	17,289
Interest	2,341	-	2,341
Other	1,122		1,122
TOTAL REVENUES	157,090	577	157,667
EXPENDITURES			
Current:			
Legislative	3,304	-	3,304
General government	53,390	_	53,390
Public safety	15,716	571	16,287
Public works	10,198		10,198
Recreation and culture	6,920		6,920
TOTAL EXPENDITURES	89,528	571	90,099
NET CHANGE IN FUND BALANCES	67,562	6	67,568
FUND BALANCES, BEGINNING OF YEAR	95,663	287	95,950
FUND BALANCES, END OF YEAR	\$163,225	\$293	\$163,518

The accompanying notes are an integral part of these financial statements.

WAWATAM TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS

\$67,568

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.

Add: capital outlay capitalized during the current year
Subtract: depreciation expense

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$65,983

The accompanying notes are an integral part of these financial statements.

WAWATAM TOWNSHIP STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUND MARCH 31, 2006

	ASSETS	AGENCY FUND
-	Cash	\$1,387
-	LIABILITIES	
	Due to other funds	1,387
	NET ASSETS	
-	Fiduciary Net Assets	<u> </u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Wawatam Township, Emmet County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Township has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use. Or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major fund:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

The Township reports the following special revenue - nonmajor fund:

<u>Liquor Law Enforcement Fund</u> - The Liquor Fund accounts for liquor license fees refunded by the State and utilization for enforcement of the State's liquor laws.

Fiduciary Funds

<u>Trust and Agency Fund</u> - The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values. Interfund transfers reflect the use of unrestricted revenues collected in the General Fund used to finance programs accounted for in other funds in accordance with budgetary provisions.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Because the Township is considered a phase 3 government for GASB 34 implementation requirements, the Township is not required to report infrastructure retrospectively. Any future infrastructure additions will be capitalized, if any.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements 15-40 years Furniture and equipment 5-10 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures. The Township has no long-term obligations as of March 31, 2006.

FUND EQUITY

Reserved fund balances for governmental funds indicates that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted by the Township officials for the General and Special Revenue Funds. The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgeted amounts are as originally adopted, or as amended by the Township Board.
- 5. Appropriations expire at the end of the fiscal year.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

NOTE 2: PROPERTY TAX

Property tax revenues for the year ended March 31, 2006, reflected in the accompanying financial statements include property taxes levied December 31, 2005. These taxes are due by February 15, 2006, and are added to the County tax rolls after February 28, 2006. The Township will receive 100% payment for the delinquent tax by June, 2006.

The taxable value of the Township totaled \$53,457,655, on which ad valorem taxes consisted of 2.000 mills for the Township's operating purposes and .2700 mills for emergency services, raising \$104,474 for operating purposes and \$14,051 for emergency services.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: CASH AND CASH EQUIVALENTS

The caption on the statement of net assets relating to cash and cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$120,407
Investments (certificates of deposit)	29,437
	\$149,844

At year-end the carrying amounts of cash and cash equivalents were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC) Uninsured – uncollateralized	\$113,802 36,042	\$119,786 36,042
	\$149,844	\$155,828

All accounts are in the name of the Township and a specific fund. They are recorded in Township records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivables and payables for the year ended March 31, 2006 are as follows:

Fund	Interfund Receivable	Interfund Payable	
General Tax Collection	\$1,387 	\$ - 1,387	
Total	\$1,387	\$1,387	

There were no operating transfers for the year ended March 31, 2006.

NOTE 5: CAPITAL ASSETS

Capital asset activity of the governmental activities for the current year was as follows:

	Balance			Balance
	April 1, 2005	Additions	Deletions	March 31, 2006
Not being depreciated:				
Land	\$ 2,501	\$ -	\$ -	\$ 2,501
Being Depreciated:				
Building and Improvements	34,659	-	-	34,659
Furniture and Equipment	17,223		(9,301)	7,922
Subtotal	54,383	-	-	45,082
Less accumulated depreciation	(47,901)	(1,585)	9,301	(40,185)
Total	\$6,482	(\$1,585)	\$ <u>-</u>	\$4,897

Depreciation was charged to the Township's functions as follows:

General government

\$1,585

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6: ACT 425 AGREEMENT

The Township entered into a Public Act 425 Agreement with the Village of Mackinaw. Under the terms of the agreement the Township conditionally transferred an economic development project to the Village. The Village will provide sewer service to the project area. In exchange for the transfer, the Village will share with the Township the revenue generated from one mill on the assessed valuation of the project parcel during the period of the agreement. For the year ended March 31, 2006, the Township received \$2,265 in shared tax revenues

NOTE 7: RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of the Township. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8: COMMITMENTS

The Township has entered into a contract for paving of a county road within the Township in the amount of approximately \$65,000.

REQUIRED SUPPLEMENTARY INFORMATION

WAWATAM TOWNSHIP BUDGETARY COMPARISON SCHEDULE -GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Γaxes:				
Property tax	\$87,500	\$87,500	\$120,790	\$33,290
Property taxes - administrative fee	13,500	13,500	16,125	2,625
Total taxes	101,000	101,000	136,915	35,915
State shared revenues:				
State shared revenues	10,900	10,900	11,143	243
State shared revenues-METRO Act	-		962	962
Swampland tax	4,607	4,607	4,607	
Total state shared revenues	15,507	15,507	16,712	1,205
nterest	1,000	1,000	2,341	1,341
Other revenue	850	850	1,122	272
TOTAL REVENUES	118,357	118,357	157,090	38,733

WAWATAM TOWNSHIP BUDGETARY COMPARISON SCHEDULE -GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

_	CURRENT:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
	LEGISLATIVE Township board	\$3,473	\$3,473	\$3,304	\$169
		40,470	, was 413	33,004	3109
	GENERAL GOVERNMENT				
	Supervisor	22,030	22,030	20,076	1,954
	Elections	3,600	3,600	641	2,959
_	Professional Services	5,500	5,500	2,900	2,600
_	Board of Review	2,150	2,150	1,133	1,017
	Clerk	9,239	9,239	8,389	850
	Treasurer	18,967	18,967	16,649	2,318
_	Township property	15,700	15,700	3,602	12,098
	TOTAL GENERAL GOVERNMENT	77,186	77,186	53,390	23,796
_	PUBLIC SAFETY				
	Fire and police	13,510	15,716	15,716	-
	PUBLIC WORKS				
_	Highways and streets	21,000	21,000	10,198	10,802
	RECREATION AND CULTURE				
_	Library	6,000	6,000	5,920	80
_	Parks	1,000	1,000	1,000	<u>-</u>
	TOTAL RECREATION AND CULTURE	7,000	7,000	6,920	80
	OTHER FUNCTIONS				
	Contingencies and other	17,187	14,981	-	14,981
_	TOTAL EXPENDITURES	139,356	139,356	89,528	49,828
	NET CHANGE IN FUND BALANCE	(20,999)	(20,999)	67,562	88,561
	FUND BALANCE - BEGINNING OF YEAR	95,663	95,663	95,663	
	FUND BALANCE - END OF YEAR	\$74,664	\$74,664	\$163,225	\$88,561
_					



Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

August 2, 2006

Township Board Wawatam Township Emmet County, Michigan

In planning and performing my audit of the financial statements of *Wawatam Township*, *Emmet County*, *Michigan*, for the year ended March 31, 2006, I considered the Township's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated August 2, 2006 on the financial statements of *Wawatam Township*.

Thank you for the opportunity to serve *Wawatam Township*. I appreciate the assistance I received from both the Clerk and Treasurer during my audit. Best wishes in the next year.

Mullet, of

Sincerely,

Richard E. Mahlmeister, C.P.A.

Wawatam Township Comments & Suggestions August 2, 2006 Page 2 (two)

CAPITAL ASSETS

I recommend that the Board review the policy as to which assets should be recorded as a capital asset. The *Government Officer's Finance Association* (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset. I further would recommend that the Board make this threshold, at least, in the range \$1,000 to \$2,000. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.